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EDMUND G. BROWN JR., Governor

DEPARTMENT OF FINANCE
SACRAMENTO

May 7, 1981

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Honorable John Vasconcellos, Chairperson
Assembly Ways and Means Committee

Honorable Alfred E. Alquist, Chairperson
Senate Finance Committee

MAY REVISION OF GENERAL FUND REVENUES AND EXPENDITURES FOR THE 1980-81 AND 1981-82 FISCAL YEARS

The current economic outlook is moderately stronger than was anticipated when the 1981-82 Governor's Budget was being prepared. Preliminary data for the first quarter of 1981 indicated a stronger economy than estimated earlier. This surge in activity suggests, however, that the path of recovery will not be smooth. A relatively flat second quarter is expected to be followed by moderate gains for the last half of this year and 1982.

Interest rate trends will continue to be critical over the next 18 months. Only a moderate decline in rates is forecast until mid-1982. High financing costs will prevent any significant improvement in the housing sector and stunt the recovery in major consumer purchases such as autos. Nevertheless, gradual improvement in employment and incomes, leading to higher real consumer spending for non-auto items, and moderate gains in plant and equipment investment will more than offset these continuing weaknesses. For all of 1981, a gain of 2.7 percent is forecast for real gross national product. By 1982, a resumption of more normal growth trends will result in real GNP rising by approximately 4 percent.

This forecast does not incorporate the President's economic program as proposed. However, some cuts in Federal expenditures were assumed, as well as a one-time individual tax cut at a $20 billion rate, effective July 1 of this year. Changes in depreciation laws designed to encourage additional investment were also built in.

The outlook for California's economy has also been revised upward. Trends over the past five months have led to slightly more favorable forecasts for employment and income. As in the nation, however, there will still be severe problems in some sectors. The housing-situation is probably the most critical, as rising prices and high interest rates have prolonged the homebuilding slump. The recent large outflow from savings and loan associations will further exacerbate the problem. Housing unit authorizations have been revised downward to 155,000 for 1981, and 190,000 for 1982. At these levels, housing demand will continue to outpace supply through at least 1982.

The goods-producing industries in the state will therefore see only gradual improvement until the latter half of this year. Even the aerospace sector, which has been a strong growth area for several years, has registered a mild setback in the first three months of 1981. This is attributable to a recession-induced slowdown in electronics, aircraft and computing equipment. Other manufacturing is starting to improve, but it will be the end of 1981 before pre-recession employment levels are reached.

Service-related sectors will do relatively well, in contrast. It is now forecast that employment overall will rise by 2.2 percent in 1981, only marginally below the Budget projection. For 1982 the outlook appears better. Employment should be up 4.6 percent, compared with the 3.7 percent gain anticipated earlier.

Personal income is coming in better than expected, due in part to the surge in interest income attributable to the January introduction of NOW accounts. The current forecast calls for an income gain of 12.7 percent this year, followed by 13.1 percent next year.

Inflation is a continuing problem, although recent increases in California have been at half the rate recorded at this time last year. The latest appraisal of the consumer price index for the state suggests a 10.3 percent rise for 1981, and a 9.9 percent increase for 1982. Further reductions in the pace of price rises will depend in large part on a significant decline in mortgage interest rates and restraint in general wage/price expectations.

Key economic variables forecast for California and the nation are shown in Table I and IA.

Honorable John Vasconcellos
Honorable Alfred E. Alquist

May 7, 1981

GENERAL FUND
REVENUE CHANGES
(See Table II)

Overview

This is the earliest that the May Revision of General Fund Revenues and Expenditures has been prepared. Thus, data relating to first quarter taxable sales, first quarter withholding amounts or actual revenue collections for April were not fully known.

Despite such shortcomings, the estimates presented here are as accurate as can be made at this time. However, revenue collections will be closely monitored this month. If there are any indications that the estimates should be revised before the Budget is passed by the Legislature, such revisons will be made.

General Fund revenues and transfers for 1980-81 are expected to be $31.7 million (0.2 percent) below the Budget forecast. This decline is due primarily to shortfalls in the inheritance, insurance and personal income taxes. Total General Fund income for 1981-82, however, is expected to exceed the Budget estimate by over $250 million (1.2 percent). Increases in the bank and corporation and personal income taxes will more than offset reductions in inheritance, insurance, and sales taxes. On balance, General Fund income for 1980-81 and 1981-82 is expected to exceed the Budget forecast by $219 million or about one-half of one percent.

		Changes to Revenues (In Millions)
Sales and Use Tax	1980-81	+$27.8
	1981-82	-$40.7

General Fund revenues are expected to exceed the Budget estimate by almost $28 million in the current year. This is attributable primarily to the strong economic performance in the first quarter of 1981.

The current glut of oil on the market should hold down the price of gasoline for much of 1981. Although moderate price increases are expected to resume toward the end of this year and continue through 1982, the slower growth in gasoline sales will contribute to less of an increase in sales tax receipts for 1981-82.

Personal Income Tax	1980-81	-$35.0
	1981-82	+$100.0

Personal income tax revenues are down $35 million for the current fiscal year due to slightly larger refunds than forecast. The forecast for the Budget year is up because the estimated annual percent change in the California Consumer Price Index is lower than expected last fall. An increase in the forecast of personal income also contributed to this gain.

Bank and Corporation Tax	1980-81	+$50.0
	1981-82	+$244.8

Corporate profits for 1980-81 exceeded the Budget forecast by almost 4 percent. Budget year profits are expected to show even greater gains, approaching $32 billion, or 7.6 percent above the previous estimate. The adjustments to the current year bank and corporation tax estimate was based on a substantial increase in 1981 collections, which are primarily payments made by calendar year corporations. Budget year estimates reflect the improved national corporate profits outlook.

Honorable John Vasconcellos
Honorable Alfred E. Alquist

May 7, 1981

GENERAL FUND
EXPENDITURE CHANGES
(See Table III)

Overview

The following expenditure revisions include all Department of Finance letters; reestimates of automatic school, Medi-Cal and welfare appropriations; deficiency legislation; prior year surplus adjustments; and current year expenditure reestimates, including 1980-81 chaptered legislation to date. They do not reflect changes by your fiscal committees or legislation yet to be enacted.

These changes will result in increases in expenditures of $88.3 million in 1980-81 and $162.2 million in 1981-82. Table III (attached) is a summary of the changes.

		Changes to Expenditures (In Millions)
K-12 (Elementary and Secondary)	1980-81	-$5.6
	1981-82	+$10.8

The revised 1980-81 expenditures for Education K-12 include a $4.7 million savings in Child Development. These savings represent an over-estimate of expenditures for support of Community College campus child care programs.

The 1981-82 expenditure increase reflects a rise in State School Fund apportionments of $47.7 million. This increase results primarily from: (1) a lower than expected increase in property taxes in 1981-82 (an 11.5 percent increase rather than the 13.2 percent projected at the time of the Governor's Budget), and (2) a 38,824 increase in projected K-12 student enrollment (ADA).

To offset the $47.7 million increase, it is proposed that: (1) a new control section be added to the Budget Bill to use $32.2 million savings from the appropriation for 1979-80 apportionments by SB 1426 (1980), and (2) that $15.5 million additional General Funds be provided for State school apportionments to meet the difference between the $47.7 million additional costs and the $32.2 million savings.

In addition, it is proposed that $4.7 million be transferred from K-12 Child Development to community college apportionments. This will reverse the excess transfer from community college apportionments to K-12 Child Development for community college campus child development programs made in the 1980-81 Budget Act.

K-12 School Facilities Aid Program	1980-81	--
	1981-82	-$63.0

See Reserve for Economic Uncertainities on page 15 for a discussion of this change.

Honorable John Vasconcellos
Honorable Alfred E. Alquist

May 7, 1981

K-12 Special Education	1980-81	--
	1981-82	--

For the 1980-81 fiscal year, the Department of Education identified a $102 million shortfall in the Master Plan for Special Education from local agency reporting forms. The Department of Education, the Legislative Analyst, Legislative Staff, and the Department of Finance have jointly analyzed the reporting forms along with the fiscal model governing Special Education (SB 1870). During this review, several areas were discovered which may be providing a windfall to districts and counties operating special education programs. The proposed deficit may be only a "Paper Deficit" with no actual financial shortfall. Services to the children in special education programs should not be curtailed.

Given the weakness in the current law, the funding model, and the difficulty in collecting and validating the necessary Special Education data, it is recommended that the Department of Education review all reporting forms completely. The Department should appropriately adjust local agency funding levels to eliminate any windfall and to properly reflect the true cost funding levels. It may be necessary to enact emergency legislation to correct deficiencies in the funding provisions of the law in the current year. It is also recommended that the Department: (1) reestablish a firm and accurate 1979-80 expenditure base by service agency to more accurately project future cost, and (2) establish clear criteria for those items which may be included in the support costs. The Budget level for 1980-81 will continue to provide to Special Education in excess of $100 million in additional General Fund for a total of $780.0 million--an increase of 22.7 percent over 1979-80.

For the 1981-82 fiscal year, it is recommended that the Governor's Budget level be retained and that legislation be developed to correct the identified weaknesses in the law before any additional funding is considered.

University of California	1980-81	-$1.4
	1981-82	-$1.3

The 1980-81 expenditure for UC has been adjusted to remove an excess $1.4 million provided for salary increases. The 1981-82 proposed expenditures for UC have been reduced by $1.3 million to reflect the cumulative actions of three Department of Finance letters. Proposed increases total $4.4 million and consist of enrollment increases ($1.6 million), Federal capitation funds replacement for the health sciences ($2.0

million), additional utility price increases ($0.6 million), and services for disabled students ($0.2 million). Proposed reductions total $5.7 million and consist of a downward revision in salary needs (-$1.4 million), accelerated budgeting of Federal overhead receipts (-$4.1 million), and an increase in health science tuition offsets (-$0.1).

California State University and Colleges	1980-81	-$7.5
	1981-82	+$0.6

The 1980-81 expenditures for CSUC have been adjusted to reflect the latest estimate of funds required to operate for the balance of the current year. Estimated expenditures are $7.5 million lower than originally anticipated. This surplus represents approximately 0.8 percent of the funds available to CSUC. Of the $7.5 million, $2.5 million are funds originally to be allocated pursuant to Section 28.9 of the Budget Act for unbudgeted enrollments in 1980-81. These funds are no longer required. The remaining balance of $5 million represents various projected savings as reported by the system for 1980-81. In addition, the 1981-82 proposed expenditure level for CSUC is estimated to increase $0.6 million as a result of a Department of Finance Letter requesting an augmentation for the Disabled Students Program.

Community Colleges	1980-81	--
	1981-82	+$15.9

The General Fund allotment for community college apportionments is expected to increase by $15.5 million as a result of a Department of Finance Letter requesting an augmentation for apportionments. The augmentation is being requested to offset the effects on community college financing of higher average daily attendance (ADA) and lower property tax revenues in 1981-82 than were projected when the Governor's Budget was prepared. Current projections place the 1981-82 ADA at 7,200 above the estimate used in budget preparation, while revised property tax revenue growth in 1981-82 is expected to be 11.5 percent rather than the 13.2 percent anticipated earlier. Additionally, revenue from the 1978-79 unsecured property tax roll (which will become available for distribution for the first time in 1981-82) will be $1.6 million less than originally thought.

The 1981-82 proposed expenditure for Community Colleges is estimated to increase $0.4 million as a result of a Department of Finance Letter requesting an augmentation for direct excess cost funding for disabled students. This letter also proposes further study of disabled student programs by the Department of Finance in conjunction with the higher education segments and the California Postsecondary Education Commission.

Medi-Cal	1980-81	-$40.8
	1981-82	-$88.0

Medi-Cal General Fund costs for 1980-81 are now estimated at $2,452.3 million, a reduction of $40.8 million from the Governor's Budget. While Medi-Cal Program users are up 5.1 percent above the level upon which the current year budget was based in May 1980, this increase is less than the 7.1 percent increase estimated in December 1980.

As a result, it is now estimated that the current year Medi-Cal deficiency will be $61.3 million rather than the $102.5 million estimated in December 1980, a reduction of $41.2 million. The difference between the changes in the deficiency and total expenditures is offset by savings in other programs of $400,000.

State costs for 1981-82 are now estimated at $2,588.0 million, a reduction of $88.0 million from the Governor's Budget. Program use in 1981-82 is expected to increase by 5.4 percent from 1980-81. However, as in the current year, this is down from the user level estimated in December 1980. Medi-Cal expenditures are projected to be down by $93 million, although this is slightly offset by increases in county administration ($.9 million), child health disability prevention ($1.4 million) and fiscal intermediary services ($2.7 million).

The $189.4 million due from the Federal Government for services to medically indigent adults is still not reflected in the revenue statement due to uncertainty about when it will be received. Federal auditors have indicated that the earliest they can complete their audit of the State's claim is January 1982. Because of recent and past contention between the State and Federal Government over this issue, and the Federal Government's reluctance to release these funds further delays in Federal approval are probable, thereby delaying receipt of the funds beyond the budget year.

Department of Health Services--California Children Services	1980-81	+$2.2
	1981-82	+$0.9

Caseload increases in the California Children's Services program will cost about $2.2 million more in 1980-81 and $1.58 million more in 1981-82. However, a cost-of-living adjustment (COLA) was inadvertently budgeted for the program in 1981-82. The amount of the COLA ($683,948) is being eliminated and will be considered in the unallocated discretionary cost-of-living adjustment.

Developmental Disabilities--Local Assistance	1980-81	-$0.1
	1981-82	+$16.3

The 1981-82 revised budget includes $525.9 million for programs for the developmentally disabled. This is $16.3 million above the amount proposed in the Governor's Budget. Program changes include: (1) a net reduction of $139,033 and 27 positions and a transfer of $656,325 from protective living services to regional centers

operations to fund the opt-out of Harbor and Western Regional Centers; (2) a decrease of $3,160,236 due to an increase in reimbursements for out-of-home care as a result of revised SSI/SSP rates; (3) $475,728 to fund day programs at the George Miller Centers; (4) $503,000 to fund community living continuums through the end of Fiscal Year 1981-82; (5) an increase of $3,805,509 to provide funding for State hospital students who will be educated by local school districts pursuant to Chapter 1191, Statutes of 1980; (6) $788,752 to fund the State share of reimbursements for the support of the Intermediate Care Facilities-Developmentally Disabled-Habilitation caseload in the Medi-Cal program; (7) an increase of $3,474,512 due to revised expenditure projections for the Work Activity Program; (8) a net increase of $8,870,649 in General Fund for contracts with regional centers due to revised caseload estimates and increased levels of purchase of services, and (9) a transfer of $1,681,962 from the Department of Mental Health to adjust for State hospital changes to reflect the change in the mix of State hospital populations among the judicially committed, Lanterman-Petris-Short Act, and developmentally disabled clients.

Mental Health Services		
	1980-81	--
	1981-82	+$9.7

The significant changes to the 1980-81 and 1981-82 expenditures include:

1. The 1980-81 expenditure estimate for assistance to local agencies has been revised to $482.3 million because expenditures have been projected to be $9.2 million less than were budgeted.

   The 1980-81 expenditure estimate for support of the hospitals for the mentally ill for judicially committed patients and patients committed pursuant to the Penal Code has been revised to $83.2 million. This amount is $9.2 million more than previously estimated due to the increase in the judicially committed population in the State hospitals. The State hospitals are budgeted for 1,904 judicially committed clients. It is projected that funding for 2,180 will be needed by June 30, 1981.

   The 1980-81 budget will be revised to reflect a one-time transfer of $9.2 million savings in assistance to local agencies to support of the hospitals for the judicially committed and persons committed under the Penal Code.

2. The Governor's Budget for 1981-82 includes $138.6 million for State hospital services for Lanterman-Petris-Short (LPS) Act clients, and $59.3 million for State hospital services for judicially committed and Penal Code clients. These amounts have been revised to $134.0 million for LPS clients and $75.4 million for judicially committed clients. These revisions reflect an augmentation for State hospital services for the increasing number of judicial commitments and a shift in overhead as a result of changes in the composition of the populations in the State hospitals. This consists of an increase of $16.1 million to Item 444-011-001 (State Operations), Department of Mental Health; a reduction of $4.6 million to Item 444-101-001 (Local Assistance), Department of Mental Health; and an increase of $1.7 million to Item 430-101-001 (Developmental Disabilities Program), Department of

Developmental Services. Additionally, $1.7 million has been reduced from the local assistance item for the General Fund monies for the Special Treatment Program already provided for in the Department of Health Services. The net effect of the change in State hospital populations will amount to a $13.1 million increase for State-operated mental health programs and a total increase of $9.7 million for all mental health programs.

SSI/SSP	1980-81	+$33.4
	1981-82	+$54.9

General Fund costs for 1980-81 are now estimated at $1,285.4 million which is an increase of $33.4 million over the Governor's Budget. This increase is primarily the result of an increase in both caseload and level of payment.

General Fund grant costs for 1981-82 are estimated at $1,105.9 million, an increase of $54.9 million over the Governor's Budget. The Federal cost-of-living adjustment will be lower than expected, pushing State costs up approximately $13 million. An increase in both caseload (primarily in the disabled category) and average level of payment due to lower offsets of unearned income account for the remaining increase of $41 million.

Payments for Children (AFDC)	1980-81	+$19.0
	1981-82	+$128.4

General Fund grant costs for 1980-81 are estimated at $1,214.9 million, up $19.0 million from the Governor's Budget. For 1981-82 costs are estimated at $1,344.4 million, up $128.4 million. This is the most significant change in the area of Social Services and is due primarily to increased caseload. Total AFDC cases for 1981-82 are estimated to increase by 8.62 percent over the Governor's Budget estimate. The total number of recipients are estimated to increase by 8.85 percent.

A number of relatively new factors affecting caseloads have altered the historical relationship between AFDC caseload and prevailing employment conditions. First is the continuation of double digit inflation; second is the three-year limit on 100 percent Federal funding for refugees; and the third is the Westcott vs. Califano court decision which allows eligibility for AFDC-U to be based upon either spouse or parent being unemployed.

Increased costs associated with a rising caseload for the 1981-82 fiscal year are compounded by savings which were forecast but which will not materialize. This situation is a result of the following:

1. Reduced savings in the proposed change to the non-Federal AFDC-Unemployment program:

   The Governor's Budget proposed that legislation be adopted to limit eligibility for the non-Federal program to those families in which neither parent is employed full time. This proposal is intended to address some of the issues raised in the recent U.S. Supreme Court action (Westcott vs. Califano), which held that the test of unemployment could no longer be limited to the major wage earner. Thus an

unemployed spouse can qualify, subject to income limitations, and receive AFDC even if the other spouse is employed. The proposal was estimated to save $30,013,900 in General Fund, $822,400 in Federal funds, and $4,718,300 in county funds.

Based on more reliable data, the total Westcott cases are now estimated to be slightly lower than 9,200 at 8,400. However, the Federal/non-Federal ratio is now estimated to be 76 percent/24 percent (6,380/2,020) rather than 33 percent/67 percent (3,060/6,140). In addition, only 70 percent, or 1,420 of the 2,020 State-only unemployed mother cases, would be terminated instead of 6,140. Thus, the expected General Fund savings due are reduced by $21 million to $7 million. However, this total reduction only results in a net $11.2 million General Fund increase over the original Budget because of: (1) the somewhat smaller caseload estimate, and (2) the shift of caseload from non-Federal to the Federal program, resulting in a Federal Fund share of a cost assumed to be 100 percent General Fund in the Governor's Budget.

2. Delay the proposed changes in the AFDC budgeting system

The proposed savings in the Governor's Budget is being delayed. This savings was due to elimination of the 80 percent supplementation of AFDC grants for recipients which projected income offset decreases through changes in the AFDC budgeting system. Because of unanticipated problems in implementing this proposal, it now appears that this change cannot be made until near the end of the fiscal year rather than at the start as assumed in the Governor's Budget. This fact (along with a lower dollar impact than expected and certain administrative implementation costs which were not anticipated) will result in minimal savings in the 1981-82 fiscal year. However, the impact will be felt in 1982-83.

Other Social Services Programs		
	1980-81	+$15.1
	1981-82	+$29.3

Significant changes to other social services programs are as follows:

Social Services-County Administration	1980-81	(+$3.8)
	1981-82	(+$.2)

General Fund costs for county administration for 1980-81 are estimated at $106 million, up $3.8 million from the Governor's Budget. For 1981-82, General Fund costs are estimated at $110.3 million, up $186,357 from the Governor's Budget. A larger caseload is the primary reason for the increased 1980-81 costs. The most significant change is AFDC caseload, which is discussed in greater detail under that item. For 1981-82, the increased costs are offset by approximately $7.5 million in reduced costs for administering the Food Stamp Program. Anticipated increases in caseload did not materialize, resulting in significantly lower costs than previously estimated.

Special Social Services Program	1980-81	(+$10.8)
	1981-82	(+$27.8)

The General Fund costs for Fiscal Year 1980-81 are now estimated at $198.8 million, up $10.8 million from the Governor's Budget. The increase is to the proposed legislative change primarily due to a caseload increase and an increase in the average number of hours per case for In-Home Supportive Services, costing $19.2 million. This amount will be partially offset and funded by an estimated $2.3 million savings in 24-Hour Emergency Response; $2.9 million made available by Chapter 463, Statutes of 1978 (AB 3028); and $7.1 million of Title IV-B funds offset against General Fund in the Adoptions and 24-Hour Emergency Response programs. The remaining $6.9 million will be included in the proposed deficiency legislation. Also included in the revised estimate is a minor increase in the Adoptions program because of an increase in the cost of providing Adoption services.

The General Fund costs for Fiscal Year 1981-82 are now estimated at $171.6 million, up $27.8 million from the amount specified in the Governor's Budget. The major change is an increase of $39.6 million in the estimate for In-Home Supportive Services (IHSS), resulting from a larger caseload and an increase in the average number of hours per case. It is proposed that IHSS be funded from a $27.7 million increase in General Fund and $11.9 million of Federal Title XX funds. In addition, the Adoptions program is increased by $0.1 million.

Department of Corrections	1980-81	+$7.5
	1981-82	+$16.1
		+$1.4 (CO)

1980-81 estimated support expenditures for the Department of Corrections have been revised upward by $3.8 million. This revision is based on more current projections of inmate population ($2,424,749); under-budgeted utility expenses ($400,000); California Medical Facility (Vacaville) lockdown costs ($507,437); court costs for Wright vs. Rushen ($317,960); and validation of physical abilities tests as mandated by Chapter 842, Statutes of 1979 ($107,008). These expenditures are in addition to the $4.0 million deficiency for prison population increases reflected in the Governor's Budget.

Local assistance funds for inmate court costs, apprehension of fugitives from justice, detainment of parolees, and transportation of prisoners were depleted early in the 1980-81 fiscal year due to an unanticipated increase in these county activities. By statute, the State must reimburse counties for such costs, and the Administration is therefore supporting SB 240 which increases by $3.7 million the amount available to counties for reimbursement.

In 1981-82, inmate population is expected to increase by 1,745 over Governor's Budget projections (+$17,481,586). Parolee population is anticipated to drop (-$1,353,742). These changes result in a net increase of $16.1 million in General Fund state operations.

Increased population pressures heighten the urgency to provide sufficient bed capacity for inmates. Accordingly, capital outlay plans have been revised to move the maximum security units proposed for San Diego to Adelanto, and to construct a medium security institution in San Diego County. An additional $1.4 million is proposed for 1981-82 to fund master planning, working drawings, and other pre-construction activities for the change in construction plans at these two locations.

Youth Authority	1980-81	--
	1981-82	+$1.8

The major portion of the increase to the 1981-82 Budget is $1,391,660 to provide funds for an increase in ward population over the number originally estimated in the 1981-82 Governor's Budget. This increase will provide support operations for an additional 98 wards by June 30, 1982. The revised program will set capacity at 5,430 wards. In addition, $425,000 is proposed for the implemntation of a State-supported demonstration program to divert young offenders to restitution and community service programs. The purpose of the program is to minimize population increases through altrnatives to confinement.

Tax Relief	1980-81	+$2.9
	1981-82	+$7.0

The Property Tax Relief Budget shows increases of $2.9 million in the current year and $7 million in the budget year. These increases are primarily due to higher than anticipated participation in the Alternative and Solar Energy Credits program resulting in increased costs of $4 million and $10 million in the current and budget year respectively. These increases are offset somewhat by savings in the Senior Citizens Renter and Property Tax Assistance Programs.

All Other Expenditures	1980-81	-$16.4
	1981-82	+$21.4

The significant programs in this category are:

Emergency Fire Suppression

Each year the Department of Forestry has available $5.0 million specifically appropriated for emergency fire suppression activities. This amount is allocated by the Director of Finance upon the Department's request with appropriate expenditure detail and justification.

This year, the Department has experienced extraordinary fire conditions and has exhausted the $5.0 million available for emergency fire suppression. As of March 31, 1981, $13.9 million in costs associated with fire emergencies was incurred.

The Department estimates, based on historical expenditure patterns, that an additional $3.5 million will be spent for the fourth quarter of the 1980-81 fiscal year. Therefore, the total need in 1980-81 for emergency fire suppression is estimated to be $12.4 million above the $5.0 million available.

Indemnification of Private Citizens

The 1981-82 proposed expenditures for the payment of claims through the Victims of Violent Crimes program were estimated at budget preparation time to be $9.8 million. Since then, claim activity has increased and the Board of Control is now processing claims at a faster rate, resulting in a $2.7 million shortfall in the current year. AB 698 proposes a $2.7 million General Fund loan appropriation to meet this current year shortfall, which shall be repaid during 1981-82 from the Indemnity Fund.

The net result is a revised estimated claims payment total for 1981-82 of $12.7 million, $2.9 million more than that displayed in the Governor's Budget.

Department of Food and Agriculture
Medfly Eradication

The Administration's deficiency bill for Medfly eradication costs was AB 624 (Chapter 14/81) which at one time carried a figure of approximately $16.3 million. Just prior to final action by the Legislature, the author, John Vasconcellos, reduced the appropriation to $13.3 million because of the inability to secure tentative verification of certain costs, mainly in the Caltrans estimates. The $3.0 million difference is being requested in the Administration's regular deficiency bills (SB 1124 and 1125)

Estimated Unidentifiable Savings	1980-81	+$80.0
	1981-82	--

When the Governor's Budget was presented in January 1981, unidentifiable savings were estimated at $180 million for the current year. The May Revision now includes an $80 million reduction in estimated unidentified savings in order to reflect a more realistic estimate of savings that will be realized by June 30, 1981. The estimated savings of $200 million for 1981-82 remains the same as reflected in the Governor's Budget submitted in January.

GENERAL FUND
OTHER SURPLUS CHANGES
(See Table IV)

Prior Year Adjustments	1980-81	+$31.8
	1981-82	--

The total estimated prior year adjustment represents a savings of $31.8 million. Major prior year savings were realized by the Department of Health Services--Medi-Cal Program ($16.7 million), Department of Education--Child Nutrition ($10.3 million), Social

Services--SSI/SSP ($4.1 million), and Special Adult Programs ($4 million). Major prior year reductions were incurred by the Department of Youth Authority ($6.9 million), Department of Mental Health ($5 million), and Social Services--County Administration ($3 million).

Reserve for Economic Uncertainties	1980-81	-$88.0
	1981-82	--

The Reserve for Economic Uncertainties is proposed to be reduced by the amount required to fund General Fund revenue shortfalls and expenditure increases in the current year, as determined by the State Controller in the Preliminary Annual Report (General Fund--Accrual Basis) for the 1980-81 fiscal year. This amount is now estimated to be $338 million a change of $88 million from the Governor's Budget. On July 1, 1981, an amount will be returned from the General Fund to restore the reserve to $620 million.

In order to maintain a balanced budget for 1981-82, including the $620 million reserve, the one-time expenditures for K-12 deferred maintainance are proposed to be reduced by $63 million.

GENERAL FUND
BUDGET SUMMARY CHANGES
(See Table IV)

The current year revenue and expenditure revisions, the change to the Reserve for Economic Uncertainties, and the prior year adjustments change the estimated Balance Available (surplus) as of June 30, 1981 from $0.3 to $0.1 million.

The proposed revisions to the budget year would result in a Balance Available as of June 30, 1982 of $0.3 million.

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Attachments

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TABLE I

MAY REVISION

SELECTED CALIFORNIA ECONOMIC DATA

	1980	Percent Change	1981	Percent Change	1982	Percent Change
Personal Income (billions)	$256.8	12.6	$289.3	12.7	$327.3	13.1
Budget estimate	$256.6	12.5	$287.2	11.9	$321.8	12.0
Corporate Profits (billions)	$27.6	8.9	$32.0	15.9	$37.0	15.7
Budget estimate	$26.6	5.1	$29.7	11.7	$33.1	11.4
Taxable Sales (billions)	$142.8	8.4	$160.0	12.1	$183.2	14.5
Budget estimate	$143.3	8.8	$161.0	12.4	$183.2	13.8
Housing Units Authorized (000)	145	-30.4	155	6.9	190	22.6
Budget Estimate	140	-32.7	175	25.0	215	22.9
New Car Sales (000)	951	-15.6	1015	6.7	1,100	8.4
Budget estimate	950	-15.7	975	2.6	1,060	8.7
Consumer Price Index: change	15.5%	--	10.3%	--	9.9%	--
Budget estimate	15.7%	--	11.4%	--	9.4%	--
Civilian Employment (000)	10,442	1.5	10,707	2.5	11,304	5.6
Budget estimate	10,432	1.4	10,897	4.5	11,378	4.4
Unemployment Rate	6.8%	--	7.6%	--	7.0%	--
Budget estimate	6.8%	--	6.7%	--	6.1%	--
Wage & Salary Employment (000)	9,879	2.2	10,101	2.2	10,563	4.6
Budget estimate	9,844	1.7	10,085	2.4	10,456	3.7

NOTE: Percent changes based on unrounded data.

May 7, 1981

TABLE IA

MAY REVISION

SELECTED UNITED STATES ECONOMIC DATA

	1980	Percent Change	1981	Percent Change	1982	Percent Change
Real Gross National Product (billions)	$1,480.7	-0.2	$1,520.1	2.7	$1,582.1	4.1
Budget estimate	$1,421.1	-0.7	$1,439.5	1.3	$1,499.4	4.2
Personal Income (billions)	$2,160.2	11.1	$2,420.0	12.0	$2,714.3	12.2
Budget estimate	$2,122.1	10.3	$2,343.2	10.4	$2,610.3	11.4
Corporate Profits before taxes (billions)	$245.4	-3.9	$287.0	16.9	$334.5	16.6
Budget estimate	$230.2	-2.7	$55.7	11.1	$283.6	10.9
Housing Starts (000)	1,304	-24.6	1,415	8.6	1,761	24.4
Budget estimate	1,277	-25.8	1,365	6.9	1,623	18.9
New Car Sales (millions)	9.1	-14.1	9.7	6.5	10.1	4.3
Budget estimate	9.0	-15.9	9.7	7.4	10.5	8.4
Consumer Price Index: change	13.5%	--	10.3%	--	9.2%	--
Budget estimate	13.6%	--	10.5%	--	9.1%	--

NOTE: Percent changes based on unrounded data.

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TABLE II

MAY REVISION

REVENUES AND TRANSFERS

GENERAL FUND
(Millions)

1980-81

	Governor's Budget	May Revision	Change
Bank and Corporation Tax	$2,676.0	$2,726.0	+$50.0
Sales and Use Tax	7,011.2	7,039.0	+27.8
Personal Income Tax	6,650.0	6,615.0	-35.0
Other Revenues and Transfers	2,718.2	2,643.7	-74.5
Totals	$19,055.4	$19,023.7	-$31.7

1981-82

	Governor's Budget	May Revision	Change
Bank and Corporation Tax	$3,035.2	$3,280.0	+$244.8
Sales and Use Tax	8,000.7	7,960.0	-40.7
Personal Income Tax	7,435.0	7,535.0	+100.0
Other Revenues and Transfers	2,548.8	2,495.4	-53.4
Totals	$21,019.7	$21,270.4	+$250.7

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TABLE III

MAY REVISION
EXPENDITURES
GENERAL FUND
(Millions)

	1980-81			1981-82		
	Governor's Budget	May Revision	Change	Governor's Budget	May Revision	Change
K-12 Elementary and Secondary	$7,386.7	$7,381.1	-$5.6	$6,885.6	$6,896.4	+$10.8
School Facilities Aid	269.5	269.5	--	221.4	158.4	-63.0
UC	1,041.0	1,039.6	-1.4	1,081.2	1,079.9	-1.3
CSUC	932.6	925.1	-7.5	928.7	929.3	+0.6
Community Colleges	1,088.8	1,088.8	--	969.0	984.9	+15.9
Medi-Cal	2,493.0	2,452.2	-40.8	2,676.9	2,588.9	-88.0
Calif. Children Services	32.6	34.8	+2.2	34.8	35.7	+0.9
Developmental Disabilities--L.A.	521.1	521.0	-0.1	525.7	542.0	+16.3
Mental Health Services	568.6	568.6	--	577.5	587.2	+9.7
SSI/SSP	1,252.0	1,285.4	+33.4	1,051.0	1,105.9	+54.9
AFDC	1,195.9	1,214.9	+19.0	1,216.0	1,344.4	+128.4
Other Social Services	355.5	370.6	+15.1	322.3	351.6	+29.3
Corrections	357.6	365.1	+7.5	392.8	410.3	+17.5
Youth Authority	227.4	227.4	--	224.0	225.8	+1.8
Tax Relief	1,327.2	1,330.1	+2.9	1,144.2	1,151.2	+7.0
All Other Expenditures	2,327.5	2,311.1	-16.4	2,747.6	2,769.0	+21.4
Estimated Unidentifiable Savings	-180.0	-100.0	+80.0	-200.0	-200.0	--
Less Expenditures from Reserves	-466.4	-466.4	--	-28.5	-28.5	--
Totals	$20,730.6	$20,818.9	+88.3	$20,770.2	$20,932.4	+$162.2

TABLE IV

MAY REVISION
SUMMARY OF CHANGES TO THE GENERAL FUND SURPLUS
(Millions)

	1980-81	1981-82
Changes in Balance Available:		
1980-81 Balance Available	--	-$88.2[a/]
Prior Year Adjustments	+$31.8	--
Revenues and Transfers	-31.7	+250.7
Current Expenditures	-88.3	-162.2
Change in Reserve for Economic Uncertainties	+88.0	--
Total Changes	-$0.2	+$0.3
Balance Available per Governor's Budget	$0.3	--
Total Changes	-0.2	+0.3
Balance Available--May Revision	$0.1	$0.3
Federal Revenue Sharing Fund--Cash Balance	$179.0	--

a/Includes total changes for 1980-81 plus changes in reserves.

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TABLE V

MAY REVISION

GENERAL BUDGET SUMMARY

GENERAL FUND
(Millions)

	1980-81	1981-82
Beginning Resources	$2,572.5	$310.9
Revenues and Transfers	19,023.7	21,270.4
Total Available	$21,596.2	$21,581.3
Expenditures:		
Current Expenditures	$20,818.9	$20,932.4
Expenditures from Reserves	466.4	28.5
Reserves:		
Unencumbered Balances of Continuing Appropriations	28.8	0.1
Reserve for Economic Uncertainties	282.0	620.0
Balance Available	$0.1	$0.3
Federal Revenue Sharing Fund-- Cash Balance	$179.0	--

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GENERAL FUND
COST-OF-LIVING INCREASES
1981-82 FISCAL YEAR
(In Thousands)

TABLE VI

Agency/Department/Program	1% Dollar Increase	Amount Budgeted in Lieu of Statutory: Percent Increase	Amount Budgeted in Lieu of Statutory: Dollar Increase	Statutory: Percent Increase	Statutory: Dollar Increase
Legislative, Judicial, Executive					
Salaries of Superior Court Judges[a]	$363	—	—	—	—
Health and Welfare					
Local Alcohol Programs	238	—	—	—	—
Local Drug Abuse Programs	282	—	—	—	—
Health Services					
County Health Services	3,152	4.75	$14,973	14.5	$46,682
Medi-Cal-Hospital Inpatient[b]	61,165	13.0	61,165	13.0	61,165
Medi-Cal-Drug Ingredients	365	4.6	1,679	4.6	1,679
Medi-Cal-"Spin-off"	2,731	4.75	9,381	11.1	19,261
Child Health and Disability Prev	33	—	—	—	—
Medi-Cal-Provider Rate	10,254	—	—	—	—
Medi-Cal-County Admin	949	—	—	—	—
Public Health-Family Plan	350	—	—	—	—
Public Health-CCS, Inpatient	130	—	—	—	—
Public Health-CCS Other	211	—	—	—	—
Public Health-GHPP Inpatient	35	—	—	—	—
Public Health-GHPP Other	9	—	—	—	—
Public Health-Other	369	—	—	—	—
Developmental Services--Regional Centers	2,863	—	—	—	—
Local Mental Health Programs	3,400	—	—	—	—
Social Services					
SSI/SSP	30,881	4.75	141,690	11.1	354,578
AFDC	14,901	4.75	70,782	11.1	164,158
IHSS-Statutory	166	4.75	785	11.1	1,837
APSB	8	4.75	41	11.1	96
Maternity Home Care	22	—	—	—	—
Access Assist. for Deaf	16	—	—	—	—
IHSS-Minimum Wage	1,245	—	—	—	—
Adoptions	172	—	—	—	—
Facilities Evaluation	62	—	—	—	—
County Administration	1,288	—	—	—	—
IHSS-Nonstatutory	517	—	—	—	—
OCSS--Nonstatutory	1,470	—	—	—	—
24-Hour Response	79	—	—	—	—
Youth Authority-County Justice System	634	—	—	—	—
Education					
Department of Education					
Total Apportionments:	[75,918]	—	(370,476)	—	(530,557)
K-12	69,980	5.0	349,900	7.1	498,700
Gifted and Talented	159	—	—	—	—
Transportation	745	4.75	3,539	10.7	7,972
Court Mandates	1,809	—	—	—	—
Adult Education	1,804	4.75	7,143	6.0	9,022
County Offices of Educ	2,021	4.75	9,894	7.1	14,863
Child Nutrition	234	4.75	1,142	10.3	2,410
Teachers Retirement	1,616	4.75	7,676	11.1	17,938
Instructional Material	423	4.75	2,009	10.7	4,526
School Improvement Program	1,900	—	—	—	—
Economic Impact Aid	1,620	—	—	—	—
Miller-Unruh Reading Program	152	—	—	—	—
Native American Indian Educ	3	—	—	—	—
Demo Programs in Reading Math	24	—	—	—	—
Indian Educ Centers	7	—	—	—	—
Career Guidance Centers	2	—	—	—	—
Resource Centers (Staff Dev)	15	—	—	—	—
Professional Dev Center	7	—	—	—	—
School Site Staff Dev	9	—	—	—	—
Child Care Program	2,062	—	—	—	—
Master Plan for Special Educ	6,414	5.0	32,467	7.1	45,539
Preschool	286	—	—	—	—
Division of Libraries	53	—	—	—	—
Urban Impact Aid	847	—	—	—	—
General Aid (Meade)	87	—	—	—	—
Board of Governor, Calif Community Colleges					
Apportionments	13,756	—	—	—	—
Special Education Allowances	246	—	—	—	—
EOPS	212	—	—	—	—
Student Aid Commission					
Cal-Grant A & B Awards	837	—	—	—	—
General Government					
California Arts Council	57	—	—	—	—
Public Broadcasting Comm	5	—	—	—	—
Air Resources Board	80	—	—	—	—
Employee Compensation	34,768	—	—	—	—
Personal Property Tax Relief	4,957	4.75	23,545	11.1	55,023
Totals	$294,128	—	$737,811	—	$1,306,455
Total 1% Excluding Medi-Cal Hospital In-Patient	(222,863)	—	—	—	—
Total Unallocated	—	—	$809,078	—	—

1% Increases (In millions)	
Statutory	$140
Employee Compensation	35